



Foreign Agricultural Service

**GAIN Report**

Global Agriculture Information Network

Voluntary Report - public distribution

Date: 3/11/2003

GAIN Report #BM3001

## **Burma**

### **Agricultural Situation**

### **Agricultural Trade**

**2003**

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#### **Report Highlights:**

Burma's lingering financial turmoil stymies agricultural traders as cash money dries up due to bank withdrawal limits.

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Includes PSD changes: No  
Includes Trade Matrix: No  
Unscheduled Report  
Bangkok [TH1], BM

Burma has been undergoing the throes of a harsh readjustment within the country's financial system since early February. A bank crisis centered among the twenty privately held banks in the country has spilled over into the market for rice, beans and pulses, the leading export crops. Trading in these commodities and others has become extremely limited due to a lack of Kyat, the Burmese currency. Kyats are hard to find due to emergency restrictions in place on bank withdrawals. Traders, like many others using the banks, are unable to access money in sufficient quantities to facilitate many of their normal buying and selling transactions properly.

Recent bankruptcies among the private service companies, informal credit companies offering relatively high returns to depositors, has led to depositors rushing to their banks to withdraw funds. The second of two bankruptcies in private service companies occurred in the first week of February and the government seized their assets to be dispersed later to shareholders. Many of the depositors in these informal credit organizations were pensioners seeking out unusually high returns.

The crisis began in earnest on 9 February, when one of the twenty private banks, the Asia Wealth Bank (AWB), announced it planned to go public. This declaration sparked unrest among the bank's depositors, who began steadily to remove their deposits. On 10 February the Chairman of Burma's Central Bank made a statement indicating the private banks were operating as usual and that they had the full backing of the Central Bank. This statement did little to soothe nervous depositors - they have long memories of other, similar statements before seeing adverse developments in the economy. AWB announced it would postpone further withdrawals until 18 February. Private bank depositors became unnerved and began pulling out their deposits at many of the other private banks as well as the AWB. On 14 February all the private banks except AWB began notifying their customers by phone to not use their credit cards. To squelch the developing bank run, the government took further steps beyond jawboning by deciding to limit the amount of cash to be withdrawn in any given week from the banks, in addition to imposing other restrictions. On 17 February the withdrawal limit was set at 400,000 Kyat, about \$400 to \$450 at the current unofficial currency rate (1,100 to 1,200 Kyat to U.S.\$1.00). This level was further reduced to 100,000 Kyat a week later.

The reaction to these stringent financial controls has been the dramatic slowing down of much business activity. Cash to facilitate transactions is not readily available and businesses requiring large amounts of cash are becoming paralyzed. An indication of just how tight things have become can be seen in the springing up of a secondary market for savings accounts. Currently, larger savings accounts are being sold off - accounts in Rangoon are reportedly selling at a 7 percent discount off "book value", while in Mandalay the cash crisis is more acute, with savings accounts there reportedly discounted 25 percent.

Agricultural exporters are badly caught up in this cash squeeze, as they generally do not have enough cash on hand to purchase the new crops coming in from the harvest. Most traders use checks to buy from farmers, so farmers were afraid to accept checks they could not cash easily. Most of the wholesale beans and pulses traders who hold large stocks attempted to sell off in the market to get cash. With a huge supply in the market and few buyers, beans and pulses prices dropped with just a few sales made on credit. Since the monsoon paddy rice harvest is

completed and most of these farmers have sold off their harvested crops, the majority of stocks are held by the traders. Wholesale rice traders were not able to buy rice due to the lack of money on hand and rice prices jumped in reaction. Conversely, many smaller rice traders had to sell their rice holdings at a loss to gain cash to pay for the rice originally bought on credit from the farmers.

With much of the financial sector in a state of limbo, the agricultural sector, along with the construction and garment industries, are cash dependent industries without their most vital tool - money. Many businesses and individuals are attempting to buy other assets which hold their value better than Kyat, including dollars, gold, and real estate. Sustained difficulties in obtaining adequate amounts of cash will exacerbate the problems the agricultural sector faces, along with the rest of the economy.

End of report.